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Beyond Business As Usual: Making PM Relationships Generate Incremental Volume

Presented by Robinson & Maite
March 25, 1998

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The ideas you are about to see can make this kind of advertising unnecessary

OOS ad example:

- Short term fix
- Same message for all
- Not most effective medium for "stock up" drive

Reinventing trade communications to build long-term relationships can:

- Customize message/medium
- Prevent OOS, and other problems
- Multiply support for brand marketing
- Increase share...not just shift share
- Maximize brand volume at present spending



The Power of Leading Brands. As the brand that sets the adult smokers who "keep you awake." Consider this: if you run out of Marlboro, nearly half (42%) of smokers with smokers will choose



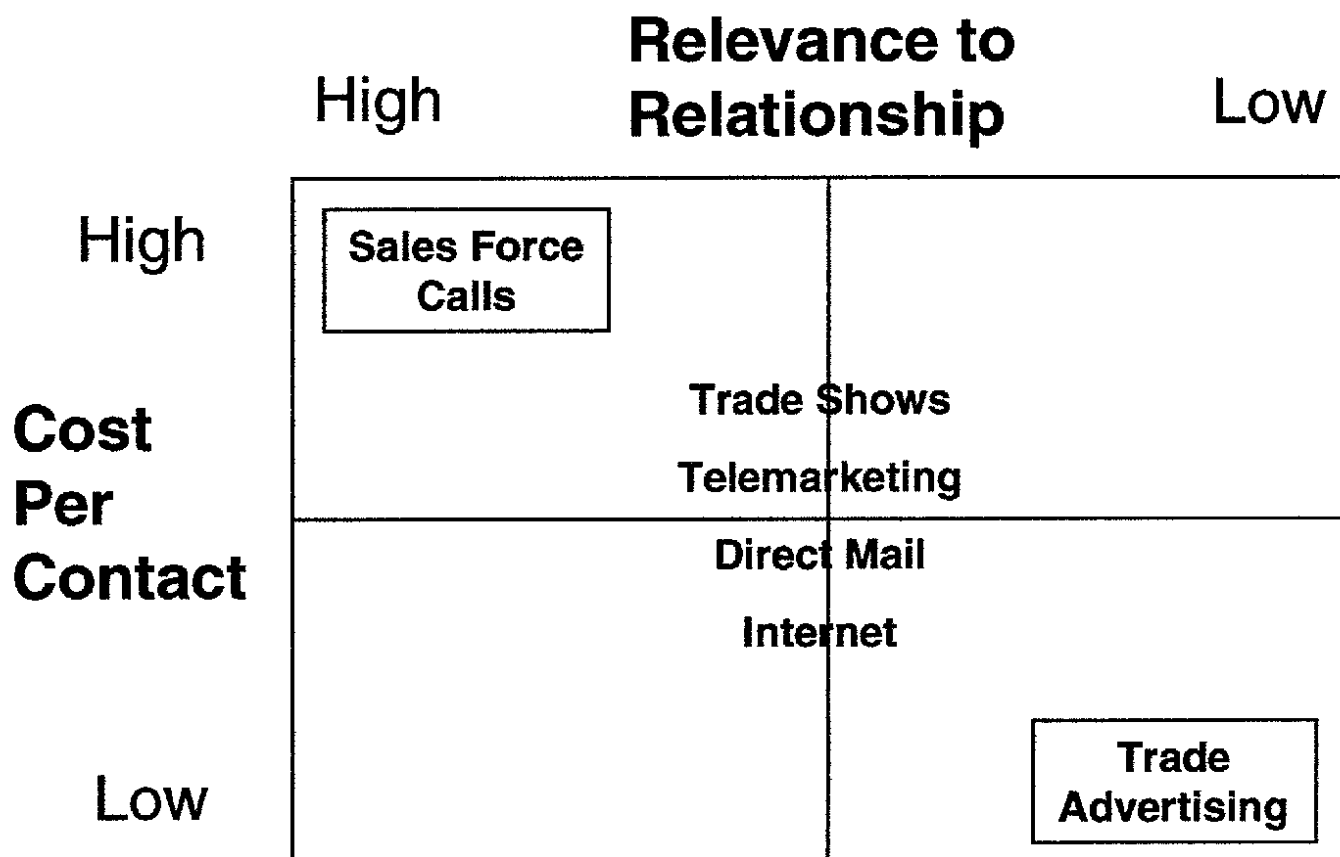
and that's why. To get the most out of your brand, stock up with enough Marlboro's. For more information, call 1-800-250-1100. Marlboro can help build your profits.



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PM trade communications now: Minimal integration/continuity of communication



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Retailer relationships: Because the balance of power has shifted...

"Retailers are relying more on database marketing, concentrating on getting the right customers in their door and then building a continuing relationship."

Source: Chain Store Age Aug 97

"Philip Morris brand promotions are OK. But I wish they had programs we could run when we open new locations."

Source: VP Marketing, Gas Station Chain

"Retailers know their own customers but crave manufacturer data that explains the dynamics behind each sale...especially account-specific data, and a plan of action."

Source: PROMO Magazine Jan 98

"Store clerks have no idea how to connect with cigarette customers [once they're in the door]. Can we train them to be better at selling PM brands?"

Source: Philip Morris Sales

"Grocers, mass merchants, drug stores, and c-stores all want two kinds of help from manufacturers: Understanding consumers and developing promotions."

Source: PROMO Magazine Jan 98

"One of our largest drug chain accounts doesn't believe Marlboro price promotions work. They may not support these programs next year."

Source: Philip Morris Sales



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Purpose: Re-energize PM leadership

PM must plan now, to renew and reinforce its relationships with the trade as the primary channel to reach smokers, or it may risk its strategic leadership position. Threat to leadership would mean short-term and long-term declines in brand volume.

This presentation establishes initial direction for re-energizing the PM leadership that drives volume.

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Situation:

- Retailers are becoming far more effective at marketing, not just selling
 - Using databases to manage relationships
 - Manufacturer and consumer
 - Manufacturer and retailer
 - Retailer and consumer
 - Demanding more *and better* support, not just allowances, from manufacturers

Implication:

- PM's leadership edge in marketing may already be at risk, especially with the trade

Solution:

- PM can leverage existing resources *now*, to take advantage of a trend we call "convergence"
 - To build relationships: PM/retailer/smoker
 - And to immediately and directly drive brand volume



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Convergence of marketing disciplines: A reflection of new retailer power

Shift in power forces manufacturers to co-plan programs especially for retailers

Account-Specific Marketing:

The manufacturer customizes marketing program(s) for individual retailer or retail chain, in return for specified retailer performance.

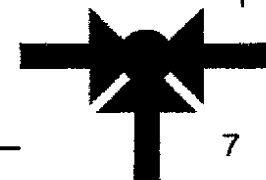
Database Marketing:

The manufacturer and/or retailer use customer-specific records to target marketing efforts

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With convergence of individual relationships...

PM and Smoker

PM and Retailer

Retailer and Smoker

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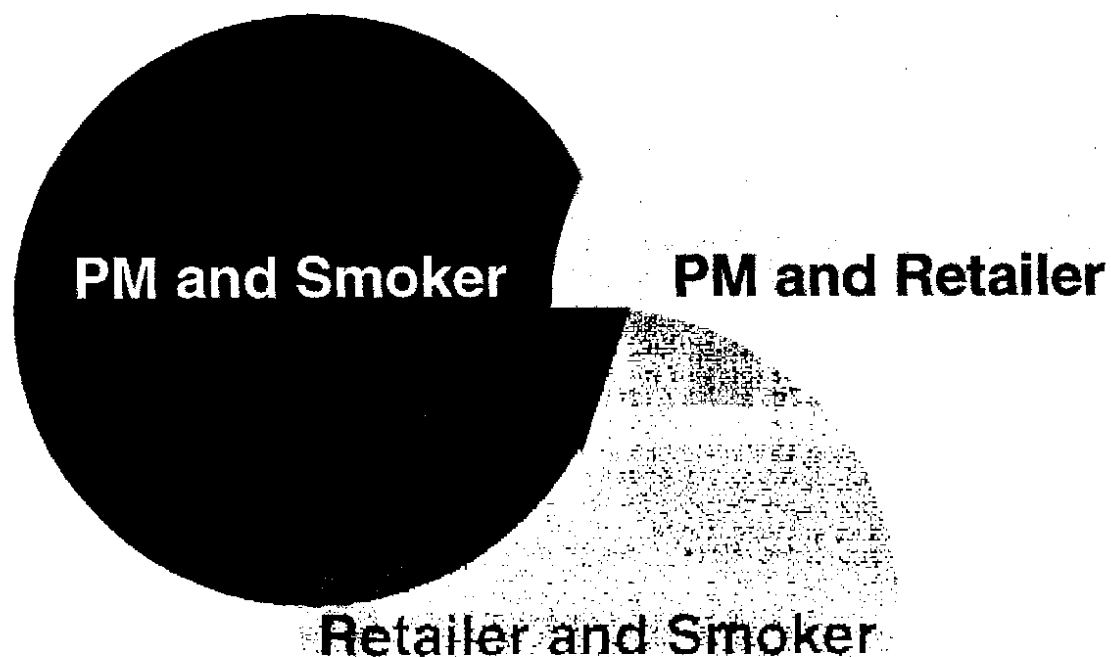


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PM has potential to optimize impact on smokers and drive volume

PM now relies exclusively on sales force to converge relationships



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Channels of trade communication: Current PM focus

**Trade
Advertising**

**Sales
Force**

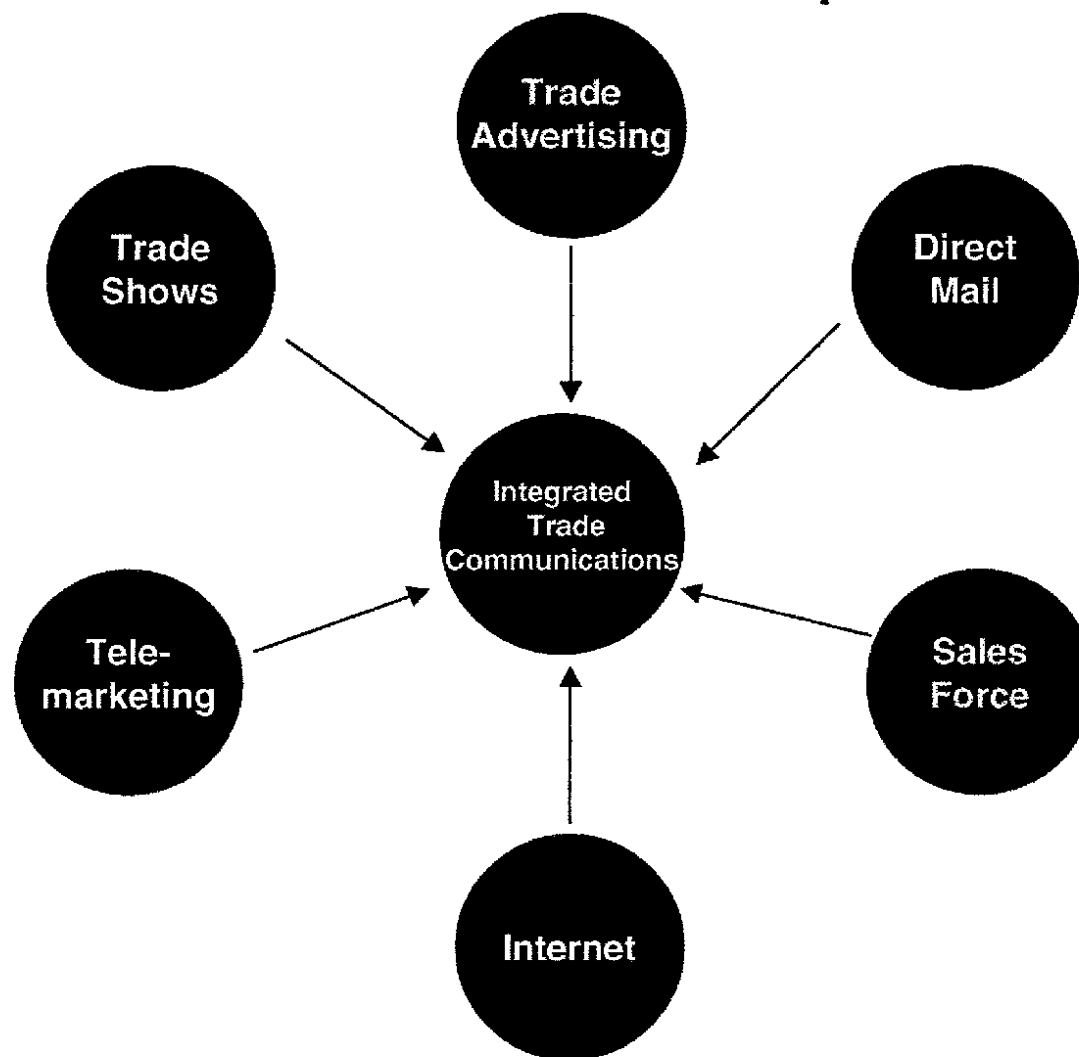
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Convergence of trade communications: Integrated programs can build PM leadership



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PM can profit from the power shift, leveraging convergence to re-ignite and reinforce its trade leadership

- Maximize promotion performance through increased retailer knowledge and ongoing support
 - Right course for market leader - PM
 - Proven positive response to relationship programs from retailers
 - Changing marketing environment demands it

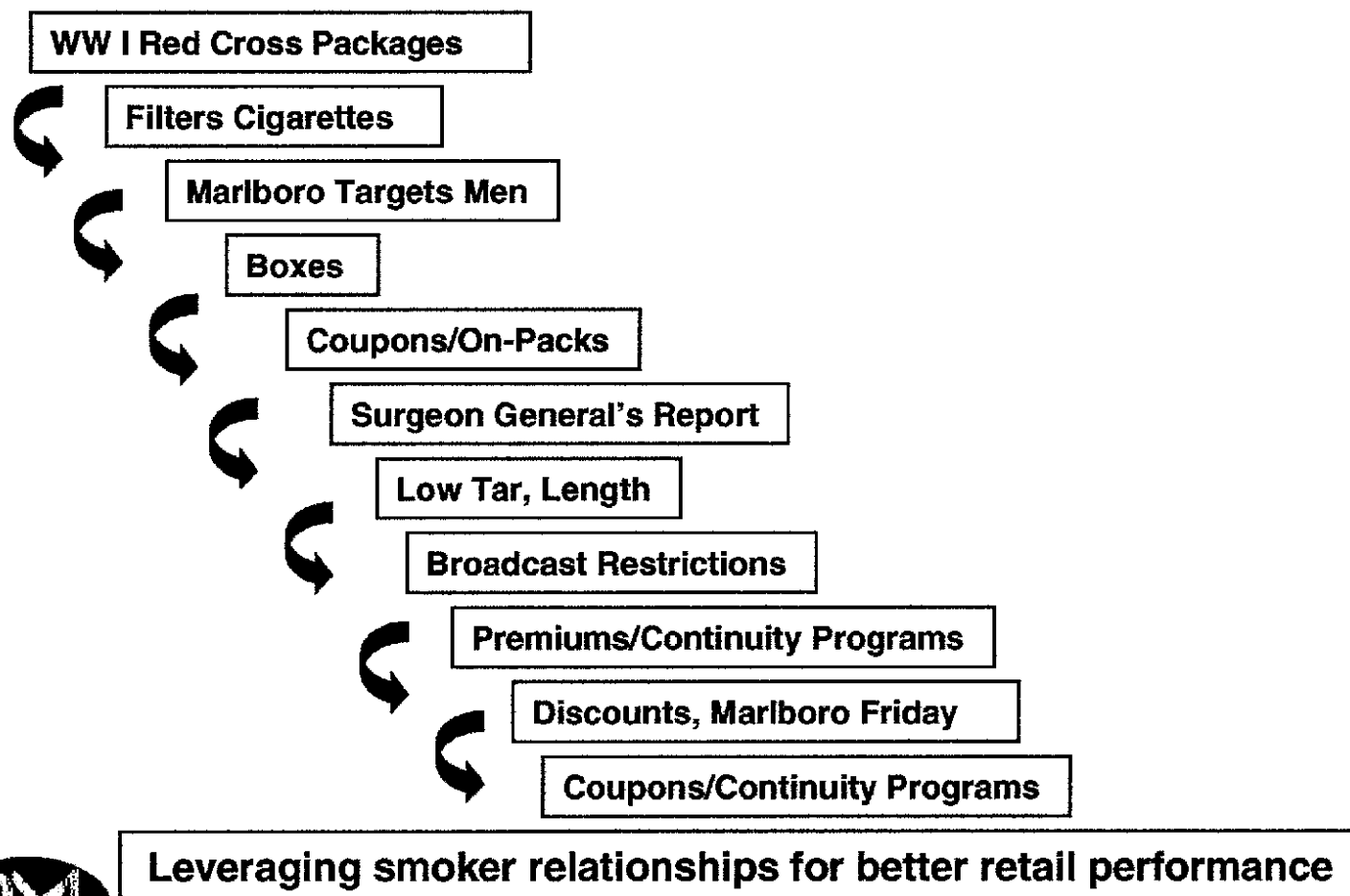
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Better retailer relationships: Potentially the next wave in tobacco marketing



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Does PM need new focus for its trade marketing?

- **PM Brand Marketing and Trade Marketing**
 - Separate internal entities
 - Opportunity for increased dialogue or co-planning
 - Integrated efforts could maximize volume potential of brand smoker promotions
- **Retail Masters**
 - State-of-the-art in pay-for-performance programs
 - Accepted way of doing business, but has become “business as usual”
 - Changing environment may make current retailer performance standards irrelevant

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How can PM go beyond "price" in relationship with retailers?

- Develop new ways to:
 - Reinforce brand promotion executions at retail
 - Maximize return from flex fund spending
 - Optimize sales force efforts
 - Develop foundation for effective marketing in changing environment
- Look at a new approach for:
 - Trade database and direct marketing
 - Full array of direct tools, integrated with sales force and trade ads
 - Targeted to retailers' individual needs
 - Provides service/information/education
 - And eventually, consumer account-specific database marketing



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Today's big trend: Consumer account-specific database marketing

- Retailers' own programs
 - Retailers realize the potential of account-specific database marketing but...
 - Many do not use it effectively
 - Data not organized for marketing action
 - Retailers not prepared to be marketers of communications programs
- Retailer/manufacturer co-marketing programs
 - Many packaged goods marketers are already doing account-specific database marketing
 - P&G has established itself as a leader in this type of marketing
 - No ASM/DB program for packaged goods has successfully co-mingled manufacturer and retailer databases

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Today's technology: Retailers have better data and the potential to improve performance

- Enhanced POS technology
 - SKU and shopper card scanning
 - Captures consumer transactional data by individual/household
- Interactive kiosks
 - By entering information via card scan or keypad, consumers access "tailored" product coupons, selected for them by a database of stored household buying history
- Scan-Based Trading
 - New convenience store business system for purchase, delivery and payment of DSD products (tested with HBT stores in Texas)
- Internet
 - Retailer Websites: customer contact for relationships and transactions (Peapod).
- Manufacturer-retailer bridge software
 - Localizer software (Spectra) - identifies specific stores and brand promotions that will increase sales volume from customers who are both heaviest brand buyers and core store shoppers
 - ACNielsen/Paragen Technologies - developing software application to help retailers and manufacturers apply traditional consumer-based applications to large customer databases (i.e., loyalty shopper programs)
- Catalina
 - Captures individual transaction data, with retailer preferred customer card program
 - Data available to retailer, not to manufacturer



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Retailers + technology = understanding consumers

- **Ultramar Diamond Shamrock** uses scanning data and purchase data to determine the fastest-moving brands. UDS currently has 150 SKUs in its cigarette category, with 100 listed as optional brands.
- **Farm Fresh** supermarkets rolled-out an in-store frequent shopper system designed to record every SKU purchased by specific households and determine which "Smart Offers" will be made.
- **Acme** supermarkets utilize a kiosk-based system which uses a database of household-specific buying history and permits shoppers to select their own coupons at its interactive booths.
- **Wal-Mart** store managers receive weekly top-50 reports on best selling products. Clerks then go around and check off which items need to be promoted in end-cap displays.

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Account-Specific Database Marketing Case Studies and Printed Samples (*Boards*)

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Promote the promotion: PM Consumer Account-Specific Database Marketing

- PM Brand Marketing schedules brand promotion
- PM Trade Marketing/Sales work with retailer management to gain incremental program support to maximize brand volume

Retailer reinforces brand promotion

- Order additional PM product
- POS performance beyond Retail Masters
- Ad/flyer for brand promotion

PM reinforces retailer promotion

- Brand DM to PM and/or store database smokers
- Announces brand retail promotion
- Delivers account-specific brand coupons



Business benefits of converging relationships

- PM gets incremental features, sales volume
- Retailers get incremental store traffic
- Smokers get incremental value from favorite brand and favorite store



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But consumer-based account-specific database marketing is not right for PM...Yet

- Share shifting only benefits retailers
 - Sends smokers to different stores
 - No overall volume increase for PM
- Risk of compromising brand equity in account-specific smoker communication
- To generate incremental business, PM consumer account-specific database marketing must start with trade relationships:
 - With many retailers, not just a few
 - Creating a foundation for more effective brand equity-building promotions

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The alternative for PM: Building relationships
with database-driven trade marketing to drive
volume

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Trade marketing: From reinforcement to relationship

- Then: Tactical support
 - Sales lead generation/qualification
 - Announcement of marketing support programs
 - “Pre-sell” for sales force/rep presentation
- Now: Strategic partnerships
 - Enhanced relationships
 - Sales force focuses on highest-potential accounts
 - Supplement or replace sales force efforts on lower-potential accounts
 - Customize product mix and marketing support activity to individual stores
 - Reach all levels from management to sales clerk
 - Improved trade marketing programs
 - Database-driven
 - Turnkey
 - Communication/education
 - Integrated and ongoing, not just “one off” communications

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Manufacturer-to-Trade Marketing Case Studies and Printed Samples (*Boards*)

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PM success potential with trade database marketing

- Use a combination of direct mail, telemarketing and sales force calls to:
 - Overcome language problem
 - Communications in languages tailored to retailer needs, e.g. California
 - Reinforce Metro program
 - Reach/motivate non-workload accounts
 - Reach/motivate workload accounts with disproportionate RJR share
 - Educate retailers on marketing restrictions and provide alternatives
- Potentially reach and motivate all retailers
 - Segment by performing/non-performing stores
 - Segment by individual need, from chain management to store clerk
- Potentially shift share from competition to PM, not from store to store



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PM Program Concepts

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PM trade relationship programs

- ***“Counter Points”***

- Quarterly or monthly newsletter
- Addresses marketing issues, compliance issues, security issues, merchandising issues
- Different versions for different channels
- Sales force involvement (*brought to you by Joe Smith, Your PM Sales Rep*)

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- ***“Compliance Alliance”***

- Training kit designed to help retailers assure that their marketing, merchandising and smoker contact personnel understand the new regulatory environment, when it goes into effect
 - Segmented by responsibility, with different presentation and content for a range of personnel, from regional VPs to individual store retail sales clerks
 - Delivered by direct mail and may include print, audio-visual and interactive (i.e., CD-ROM) materials, as well as FAQ via 800# or online
 - Potentially customizable to individual chain needs
 - Available FREE on request from PM

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- ***“Connections”***

- Non-workload account program designed to supplement wholesaler/jobber efforts with direct mail and telemarketing
- Allows for enrollment/incentive offer
- Rewards for performance
- Build PM menthol and other business



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- ***Open Alternative Distribution Channel***

- Expand existing PM “event” venues - bars/taverns/nightclubs - to contribute more significant sales volume on an ongoing basis.
- Use mail and telephone communications to sell products, merchandising and promotion directly to these non-workload accounts.

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Stronger relationships create foundation for volume-building brand equity promotion

- Enlist smokers in convergent database
 - Special brand-specific UE direct mail to PM smoker database builds foundation for account-specific marketing
 - Survey requests:
 - Information update
 - Name/location of "favorite store"
 - Permission to share information with cigarette retailers
 - Response incentive is both brand-specific and account-specific
- Basic account-specific smoker direct mail
 - Brand equity and account-specific can successfully co-exist



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Plan now for leadership that drives incremental volume

- PM should immediately begin planning to leverage its assets - direct marketing expertise and sales force - to establish strategic alliances with retailers
 - Addresses potential radical changes in tobacco marketing
 - Build relationships by supporting retailers' commitment in account-specific and database marketing
 - Can pre-empt current competitive efforts
 - Tangible expression of PM leadership
 - Retailer adoption of technology
 - Retailer education in effective use of database
 - Brand/retailer/smoker relationships through database co-mingling
 - Secure leadership role in next wave of tobacco marketing



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New wave...new challenges

- Retail promotion is most often “discount”
- Outside utilization of PM database names
- Key PM channels - gas and c-store - are not active transaction data collectors
- Non-traditional tobacco marketing
 - “Trench warfare” vs. “blitzkrieg”
 - Sales function vs. marketing function
 - Long-term relationship replace short-term promotions
- Continuous, integrated communication, not “one off” direct mail
- Robinson Patman compliance



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Beyond business as usual: First steps toward the convergence that builds incremental volume

- Internal PM buy-in
 - PM Brand Marketing
 - PM Sales
 - PM Trade Marketing
- Key account buy-in (pilot program)
- Learning
- Development of turnkey program(s) for execution

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